GO Item 5
May 2, 2019
Worksession

MEMORANDUM

April 30, 2019

TO: Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst

SUBJECT: Property Tax Options: Credit amount, revenue, and rate

PURPOSE: Worksession – Committee to make recommendations on Resolution

Staff recommends setting the credit at $800 for FY20 and keeping property tax revenue at the so-called Charter Limit.

Intro

Every year, the Council considers its options with respect to the amount of property tax revenue, the amount of the credit, and the weighted average real property tax rate. Decisions on any two of these effectively determine the third—for example, determining the amount of property tax revenue and the amount of the credit effectively determines the weighted property tax rate.[1] The Council sets the credit amount and tax rates when it approves the budgets in May, and memorializes the projected property tax revenue that will result from those actions when it approves the fiscal plan in June and the schedule of revenue estimates in July.

This year, the County Executive proposed a credit of $692. The credit has been set at $692 for each tax year since 2011. Councilmembers Jawando and Riemer requested some initial analysis of alternatives in order to facilitate a policy discussion regarding the credit, rate, and revenue amount. These alternatives, and others, may be considered during the upcoming Committee and Council worksessions.

History

As Table 1 indicates, the credit was set at $690 for FY10 and then increased to $692 for FY11. It has remained at that level since that time.

[1] These decisions ultimately take the form of a resolution to set the property tax credit for income tax offset and a tax levy resolution that includes the tax rates for all property taxes that are part of the weighted property tax rate.

Table 1: Weighted property tax rates and income tax offset credit (FY00/LY99 to current)

Fiscal Year	Weighted average real property tax rate (per $100)	Change	ITOC
2000	$1.006	($0.011)	$0
2001	$1.006	$0.000	$0
2002	$1.006	$0.000	$0
2003	$1.005	($0.001)	$0
2004	$1.005	$0.000	$0
2005	$0.995	($0.010)	$0
2006	$0.953	($0.042)	$116
2007	$0.903	($0.050)	$221
2008	$0.903	$0.000	$613
2009	$0.903	$0.000	$579
2010	$0.904	$0.001	$690
2011	$0.904	$0.000	$692
2012	$0.946	$0.042	$692
2013	$0.991	$0.045	$692
2014	$1.010	$0.019	$692
2015	$0.996	($0.014)	$692
2016	$0.987	($0.009)	$692
2017	$1.0264	$0.0394	$692
2018	$1.0012	($0.0252)	$692
2019	$0.9814	($0.0198)	$692
2020R	*$0.9786*	*($0.0028)*	*$692*

Credit

The effect of the credit is to shift a portion of the County's property tax burden to non-eligible properties (e.g. commercial properties, residential rental properties, and residential properties that are not owner-occupied primary residences). The Council sets the credit as a specific amount, rather than as a percentage of value; consequently, the credit adds a degree of progressivity to the property tax system. Montgomery County is currently the only County in Maryland to provide such a credit to its taxpayers.

§52-11B(c): The County Council must set the amount or rate of the credit under this Section annually by resolution, adopted no later than the date the Council sets the property tax rates. A public hearing must be held, with at least 15 days' notice, before the Council adopts a resolution under this Section. The amount or rate of the credit must, in the Council's judgment, offset some or all of the income tax revenue resulting from a County income tax rate higher than 2.6%. The Council must set the amount of the credit at zero for any tax year in which the rate of the County income tax does not exceed 2.6%.

The income tax for Montgomery County taxpayers is 3.2%, and as such the maximum credit that the Council can set for FY20 is roughly $1,260 per eligible household. **Council staff recommends**

increasing the credit to $800 for FY20. Consumer prices have increased by more than 15% during the period since the Council initially set the credit at $692. Periodically changing the credit amount to reflect inflation ensures that the value of the credit will not erode indefinitely.

Rate

The Council sets multiple tax rates each year (at last count there were 55 separate rates set in the annual levy resolution, though many are set at $0). Since many of those rates do not apply to all parts of Montgomery County, the overall impact of applicable property tax rates will vary from one taxpayer to the next. As such, the *weighted average property tax rate* tends to be the rate that is most frequently used in discussions of local tax policy. The County Executive has recommended a weighted average real property tax of $0.9786 per $100 of assessed value. The general countywide rate is $0.7202 per $100 of assessed real property, while a rate of $1.8005 is levied on personal property (personal property tax rates are set at 2.5 times higher than the rate for real property). Staff's preferred option would result in a weighted average real property tax rate of $0.9920 per $100, an increase of 1.34 cents.

In setting the tax rate, the Council is bound by certain constraints, including:

- Maryland's Constant Yield Tax Rate law (which requires notice if the Council intends to increase the General Fund Tax Rate above the rate necessary to generate the same amount of General Fund tax revenue that was generated in the previous tax year).
- The super-majority requirement in the County's Charter (which requires affirmative votes of nine Councilmembers to increase property tax revenue from most real property to the level of the previous year plus an inflation adjustment).

The Council may also consider other factors, including:

- The amount of revenue that is necessary to fund the operating budgets.
- The amount of revenue that is necessary to fund the capital budgets.
- County fiscal policies that affect the allocations to non-operating uses of revenue such as reserve levels, pre-funding of retiree health benefits, and maintain adequate fund balances.

Revenue

The amount of property tax revenue is a function of the assessable base, tax rates, collection factors, and credits. With respect to the assessable base, the following facts are relevant:

- The countywide total (real + personal property) property taxable assessment is estimated to increase approximately 3.5 percent from a revised $195.1 billion in FY19 to $202.1 billion in FY20.
- For FY20, the Department of Finance estimates a real property taxable base of approximately $197.6 billion, an increase of 3.6 percent from FY19.
- For FY20, the Department of Finance estimates a personal property taxable base of $4.5 billion.
- The real property base is divided into three groups based on their geographic location in the County. Each group is reassessed triennially by the State Department of Assessments and Taxation.
- The amount of the change in the established market value (full cash value) of one-third of the properties reassessed each year is phased in over a three-year period. Declines in assessed values, however, are effective in the first year.

- Based on data provided by SDAT, reassessment for real property for Group 1 is estimated to increase 5.0 percent and commercial property is estimated to increase 16.5 percent in FY20.

With respect to the relationship between revenue, rates, and credits, the important thing to remember is that a change to rates also affects properties that are not subject to the so-called "Charter Limit". To wit, a change to rates affects revenue from new construction, newly re-zoned real property, and personal property (which is taxed at 2.5 times the real property rate). As such, if the Council increases the credit and keeps revenue at the Charter Limit, a modest amount of additional revenue is generated.

The key decision point for the Council is whether to keep property tax revenue at the Charter Limit for real property tax. Since a decision to set property tax revenue below the Charter Limit would result in lost revenue in future years (each year's Charter Limit is based on property tax revenue from the previous year adjusted for inflation), doing so would increase pressure on other revenue sources. **Council staff recommends setting property tax revenue at the Charter Limit** (what that number is depends upon the separate decision that the Council will make with respect to the credit amount).

Tax Burdens

The County has a diverse revenue portfolio that includes multiple taxes, not just a property tax. The FY20 "real" average household tax burden in FY20 (adjusted for inflation) would be $16 higher than the FY19 level and $30 above the FY18 level. *Average Tax Burden, ©5.* County taxes as a share of personal income would be 3.83% in FY20, roughly equal to the previous two years (estimated at 3.82% in FY19 and 3.85% in FY18). *County Taxes as a Share of Personal Income, ©5.* The overall tax burdens of individual households vary based not just upon the value of their homes, but also other factors such as whether they live in a municipality, their eligibility for credits, the re-assessment cycle, household income, and energy consumption.

Analysis of Options

In order to facilitate consideration of alternatives, Council Staff requested that Finance prepare the preliminary analysis. For purposes of this memo, alternatives considered include: continuing the current credit amount ($692), as recommended by the CE; continuing the FY19 weighted average property tax rate ($0.9814) and increasing the credit to remain within the Charter Limit; and two other increased credit scenarios ($800; and $1,000). **Staff's preferred option is to set the credit at $800, an increase of $108 compared to the status quo. Doing so would make the credit as valuable (adjusted for inflation) to eligible households in FY20 as it was when it was first set at $692 in FY11.**

What effect does each option have on property tax revenue?

As noted above, if the Council decides to both increase the credit and set property tax revenue at the Charter Limit a result will be a modest amount of additional revenue. This is because the higher rate will apply to real property that is not subject to the Charter Limit (e.g. real property tax on new construction) and will result in an increase in the rates for personal business property. Both represent a very small portion of the County's overall annual property tax revenue.

This additional revenue could be used as a pay-for to offset the cost of items added to the budget by the Council during reconciliation. To the extent that Councilmembers identify resources to pay for new or expanded programs to meet needs in the community, or the cost of adhering to current fiscal policies, then scenarios that generate additional revenue may be preferential. Presumably the amount of weight that each individual Councilmember gives to the additional revenue will also depend on their assessment of the direct advantages (e.g. increased progressivity) and indirect disadvantages (e.g. increased burdens for non-credit eligible properties; combined impacts of reassessments and rate changes on some properties; etc.).

Table 2: Summary of Scenarios with Revenue at the Charter Limit

Credit Amount	Weighted Avg. Rate	Additional Revenue
$692	$0.9786	$0
$715	$0.9814	$0.4 million
$800	$0.9920	$1.7 million
$1,000	$1.0168	$4.8 million

What is the revenue expenditure amount associated with each option?

Tax credits are a form of expenditure. At $692, the expenditure related to this credit is roughly $168 million per year. Assuming there are roughly 244,000 credit eligible households (as has been the case for last several years), the additional tax credit expenditure in each scenario is 244,000 x (Credit - $692).

Table 3: Revenue Expenditure Associated with Each Scenario

Credit Amount	Credit Increase	Add'l Revenue Expenditure
$692	$0	$0
$715	$23	($5.6 million)
$800	$108	($26.4 million)
$1,000	$308	($75.2 million)

This revenue expenditure is offset by the rate increases (see Table 2). The rate increases then lead to a small amount of additional revenue because the rates apply to newly constructed real property and result in higher rates on business personal property. Tables 2 and 3, taken together, illustrate the interplay between the credit and rate. For example, if the Council were to set the credit at $1,000 then the revenue expenditure would be $75.2 million, but the offsetting rate increase would generate $80 million in additional revenue. The difference between those two numbers is the additional revenue identified in Table 2 – $4.8 million.

How do these alternative policy scenarios relate to the other factors that affect property tax bills?

Each year, the Council considers whether to approve a combination of credit and rate that are different from those recommended by the Executive. However, taxpayers experience year-to-year changes in their tax bills that are unrelated to those decisions – changes to assessed value based on SDAT's triennial re-assessment cycle, changes to the County tax rate as a result of changes to the County's assessable base, and changes to municipal tax rates.

The Department of Finance estimates that the current average assessed value of credit-eligible properties is $487,934 and that next year's average will increase to $498,278 (an increase of 2.1%). Table 4 (below) illustrates the relative impacts of some of the factors affecting tax bills.

Table 4: Contribution of Assessed Value Change, Rate Change, and Credit Change to the Net Tax of a Hypothetical Credit-eligible Property

Year	Assessed Value	Rate (per $100)	Credit	Net Tax	Impact of Assessment Change	Impact of Rate Change	Impact of Credit Change
Current Year/FY19	**$487,934**	**$0.9814**	**$692**	**$4,097**			
Next Year/FY20 (Same Rate & Credit – exceeds CL)*	$498,278	$0.9814	$692	$4,198	$101	$0	$0
Next Year CE Rec (rate reduced to stay at CL)	$498,278	$0.9786	$692	$4,184	$101	($14)	$0
Next Year (keep rate the same, increase credit to stay under CL)	$498,278	$0.9814	$715	$4,175	$101	$0	($23)
Next Year (increase credit to $800; revenue at CL)	$498,278	$0.9920	$800	$4,143	$101	$53	($108)
Next Year (increase credit to $1,000; revenue at CL)	$498,278	$1.0168	$1,000	$4,066	$101	$176	($308)

Not an option proposed for consideration, but useful for illustrating isolated impact of assessment change

The sum of the last three columns in this table equals the difference between the net tax amount in that row and the net tax amount in the first row.

Does the fact that a credit increase would only benefit eligible properties mean that it is not a progressive policy?

It is frequently stated that while the credit is progressive among homeowners, it is regressive insofar as a portion of the burden is shifted from homeowner-occupied properties to renter-occupied properties. However, the fact that not all County residents would benefit from the action does not mean that the Council should not pursue the policy. Increasing the credit is the most progressive thing that the Council can do within the context of its decision regarding this credit. **Given the break-even point of $800,000 to $850,000 of assessed value, increasing the credit would benefit seven-eighths of Montgomery County's credit eligible households.**

Importantly, the most progressive actions that governments take to benefit those in need are on the spending side of the ledger, rather than on the revenue (tax) side. It is the spending that benefits those with little capacity to pay that is most important – programs and facilities that benefit youth, families, seniors, and other disadvantaged populations. Entitlement programs, and local supplements to State entitlement programs (such as the local 100% match of the State's earned income tax credit), are another important category of progressive local expenditure. Finally, the credit is not the only tax credit – the County has other tax credits that benefit certain seniors, veterans, and other sub-populations – as well as other taxpayer friendly provisions in the Code (circuit-breaker protection to mitigate the impact of assessment increases, pre-payment of property taxes, and property tax deferral options).

How progressive is each option in terms of the impact on residential properties across a range of assessed values?

Most property tax accounts are credit-eligible. Among credit-eligible property tax accounts, increasing the credit is progressive. If the Council decides to increase the credit, the effect is both to shift a portion of the overall tax burden from residential properties to commercial properties, and to reduce property taxes for most credit eligible properties. Table 5 on the following page illustrates the effect.

- The "break-even" point would be between $800,000 and $850,000 of assessed value, i.e. credit eligible properties with assessed values below that amount would generally benefit from increasing the credit.
- On the other hand, credit eligible properties assessed above that amount would experience some increase in property tax burden as a result of the increased property tax rate. The increase would be most noticeable for properties with assessed values above that "break-even" point in the $1,000 credit scenario.
- In Staff's preferred scenario (increasing the credit from $692 to $800), an owner of a $250,000 home would experience a $75 reduction in property taxes, while the owner of a $1,250,000 home would experience a $60 increase in property taxes.

Table 5: Progressivity of Income Tax Offset Options

	CE Rec.	**$715 Credit**	**$800 Credit**	**$1,000 Credit**
Rate (per $100)	$0.9786	$0.9814	$0.9920	$1.0168
Credit	$692	$715	$800	$1,000
Value= $250,000				
Net Tax	*$1,755*	*$1,739*	*$1,680*	*$1,542*
Vs. CE Rec.		*($16)*	*($75)*	*($213)*
Net Tax as % of Value	*0.70%*	*0.70%*	*0.67%*	*0.62%*
Value=$450,000				
Net Tax	*$3,712*	*$3,701*	*$3,664*	*$3,576*
Vs. CE Rec		*($11)*	*($48)*	*($136)*
Net Tax as % of Value	*0.82%*	*0.82%*	*0.81%*	*0.79%*
Value=$650,000				
Net Tax	*$5,669*	*$5,664*	*$5,648*	*$5,609*
Vs. CE Rec		*($5)*	*($21)*	*($60)*
Net Tax as % of Value	*0.87%*	*0.87%*	*0.87%*	*0.86%*
Value=$850,000				
Net Tax	*$7,626*	*$7,627*	*$7,632*	*$7,643*
Vs. CE Rec		*$1*	*$6*	*$17*
Net Tax as % of Value	*0.90%*	*0.90%*	*0.90%*	*0.90%*
Value=$1,050,000				
Net Tax	*$9,583*	*$9,590*	*$9,616*	*$9,676*
Vs. CE Rec		*$7*	*$33*	*$93*
Net Tax as % of Value	*0.91%*	*0.91%*	*0.92%*	*0.92%*
Value=$1,250,000				
Net Tax	*$11,541*	*$11,553*	*$11,600*	*$11,710*
Vs. CE Rec		*$12*	*$60*	*$170*
Net Tax as % of Value	*0.92%*	*0.92%*	*0.93%*	*0.94%*

How does each option affect property tax bills for residential properties that are not credit eligible?

Of course, residential properties that are not eligible (renter occupied, not primary residences) for the credit would be subject to the downside of a rate increase without the benefit of the credit increase. Table 6 illustrates the impact of each of those scenarios compared to the CE's recommended scenario.

Table 6: Effect of Income Tax Offset Options on Non-Eligible Residential Properties

	CE Rec.	Option 1	Option 2	Option 3
Rate (per $100)	$0.9786	$0.9814	$0.9920	$1.0168
Credit	$692	$715	$800	$1,000
Value= $250,000				
Net Tax	*$2,447*	*$2,454*	*$2,480*	*$2,542*
Vs. CE Rec.		*$7*	*$33*	*$95*
Value=$450,000				
Net Tax	*$4,404*	*$4,416*	*$4,464*	*$4,576*
Vs. CE Rec		*$12*	*$60*	*$172*
Value=$650,000				
Net Tax	*$6,361*	*$6,379*	*$6,448*	*$6,609*
Vs. CE Rec		*$18*	*$87*	*$248*
Value=$850,000				
Net Tax	*$8,318*	*$8,342*	*$8,432*	*$8,643*
Vs. CE Rec		*$24*	*$114*	*$325*
Value=$1,050,000				
Net Tax	*$10,275*	*$10,305*	*$10,416*	*$10,676*
Vs. CE Rec		*$30*	*$141*	*$401*
Value=$1,250,000				
Net Tax	*$12,233*	*$12,268*	*$12,400*	*$12,710*
Vs. CE Rec		*$35*	*$167*	*$477*

How would increased property tax burdens for non-eligible properties affect rents?

It is likely that a portion of the increase would be passed on in the form of higher rents when leases are renewed, or new leases are executed. It is also possible that a portion of the increase flow through in the form of lower property values resulting from reduced net income.

That having been said, real estate businesses will still be able to deduct the cost of property taxes from their federal income taxes. While the Tax Cuts and Jobs Act of 2017 did limit federal deductions for individuals' state and local income taxes, no such limit was included for businesses.

It is notable that even if the added cost is passed on to renters, the monthly cost of such an increase on units that are likely to house those with the least means would be relatively low. For example, if the credit is increased from $692 to $800 and if 100% of the cost of the resulting rate increase is passed on to renters, then the renter of a unit valued at $250,000 might experience it as a $2.75/month increase ($33/12 months).

How would these changes affect businesses in Montgomery County?

It is very difficult to generalize about the impact on businesses. Many small businesses have zero or close to zero real estate footprint. Some small businesses are home-based, while others may own commercial property that is the site of their business activity. Other small businesses have "full-service" leases, under which the property owner bears the risk of property tax increases. Others still have "net" leases and bear the risk of property tax increases themselves. Furthermore, even among small businesses that do own or lease real estate there is significant variability – for some, real estate may represent a small portion of their overall cost structure whereas for others real estate may represent a much larger portion of their total costs (either because they serve a high cost area, or because they require a significant amount of land or finished space).

Table 7: Illustrative Effect of Rate Changes on Small Commercial Real Property

Scenario	Assessment	Re-Assessment	Rate (per $100)	Net Tax	Assessment Change	Rate Change
Current Year/FY19	$500,000		$0.9814	$4,907		
Next Year -CE Rec	$500,000	$526,398	$0.9786	$5,151	$259	($15)
Next Year – $715	$500,000	$526,398	$0.9814	$5,166	$259	
Next Year – $800	$500,000	$526,398	$0.9920	$5,221	$259	$55
Next Year – $1,000	$500,000	$526,398	$1.0168	$5,342	$259	$186
Current Year/FY19	$1,000,000		$0.9814	$9,814		
Next Year -CE Rec	$1,000,000	$1,052,796	$0.9786	$10,303	$518	($29)
Next Year – $715	$1,000,000	$1,052,796	$0.9814	$10,332	$518	
Next Year – $800	$1,000,000	$1,052,796	$0.9920	$10,443	$518	$112
Next Year – $1,000	$1,000,000	$1,052,796	$1.0168	$10,705	$518	$372
Current Year/FY19	$2,000,000		$0.9814	$19,628		
Next Year -CE Rec	$2,000,000	$2,105,592	$0.9786	$20,605	$1,036	($59)
Next Year – $715	$2,000,000	$2,105,592	$0.9814	$20,664	$1,036	
Next Year – $800	$2,000,000	$2,105,592	$0.9920	$20,887	$1,036	$223
Next Year – $1,000	$2,000,000	$2,105,592	$1.0168	$21,409	$1,036	$745

Table 7 illustrates that the assessment change (for purposes of this example 5.28%, which is the average increase for non-credit eligible real property) is the largest driver of changes to property tax bills. Under the CE's recommended budget, the slight decline in the property tax rate mitigates a portion of the assessment-related increase. For example, a $1,000,000 property this year, taxed at a rate of $0.9814 per $100, generates $9,814 in revenue. If that property increases in value to $1,052,796 and the tax rate remains the same, the amount of revenue generated would increase by $518. Under the CE's recommended budget, the tax rate is set somewhat lower – at $0.9786 – and that reduction in the rate mitigates $29 of the increase attributable to the reassessment ($518-$29=$489).

The impact on large businesses would be very similar to that described above. Most of the year-to-year variation in their property tax bills result from changes to the value of the underlying property. Businesses, especially large businesses, are also more likely to appeal their assessments. Key large employers sometimes also benefit from economic development agreements that are based on incremental growth in property tax revenue associated with their specific project.

Other notes that are relevant to the impact on businesses include:

- Businesses value stability and predictability. Large year-to-year policy changes are likely to create a sense of unease and may discourage investment.
- The income tax offset credit was created to offset a portion of the impact of the local income tax in Maryland. Under Maryland's tax regime, corporations do not pay any local income tax. As a result, there is no local income tax to be partially offset by the credit.

- The federal tax code treats businesses more favorably than individuals in many respects. For example, a business that is responsible for property taxes (either as a result of a net lease or ownership of the property) would be able to deduct property taxes on their federal income taxes without being subject to the $10,000 limitation that applies to individuals' income taxes.
- Montgomery County has tax credits that specifically benefit businesses in targeted geographic areas (such as the Wheaton Enterprise Zone). Montgomery County also has local supplements to State tax credits, which typically target businesses in specific industries (e.g. bioscience, cybersecurity).
- Other examples include exemptions and rates set at $0 for development impact and other taxes, typically benefitting either specific geographic areas or favored industries.
- It is also worth noting that businesses (large and small), like residents, benefit from the services and facilities that are funded with tax dollars. For example, roads, schools, parks, transit service, education, public safety, and economic and workforce development are among the publicly funded services and facilities that contribute to Montgomery County's business environment.

Attachments:

Draft Resolution	©1
Memo from County Executive	©2
Jawando Memo on Increasing the Credit	©3

F:\Sesker\taxes & revenues\property tax\FY20 ITOC\GO Memo.docx

Resolution No.: ____________
Introduced: April 2, 2019
Adopted: ____________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Council President at the request of the County Executive

---

SUBJECT: Property Tax Credit for Income Tax Offset

Background

1. County Code Section 52-11B authorizes the County Council by resolution to set the rate or amount of the property tax credit to offset certain income tax revenues resulting from a County income tax rate higher than 2.6%.

2. The County Executive has recommended the amount of property tax credit under County Code Section 52-11B for the tax year beginning July 1, 2019 to be $692 for each eligible taxpayer.

3. Notice of public hearing was given, and public hearing was held.

Action

The County Council for Montgomery County, Maryland, approves the following action:

The amount of the property tax credit under County Code Section 52-11B for the tax year beginning July 1, 2019 is $692 for each eligible taxpayer.

This is a correct copy of Council action.

____
Megan Davey Limarzi, Esq.
Clerk of the Council

Bud. Fi. 4/18/19 ... 9 am

GS
CC
mm
ML
JS
BD

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Marc Elrich
County Executive

MEMORANDUM

March 15, 2019

TO: Nancy Navarro, President, County Council

FROM: Marc Elrich, County Executive

SUBJECT: Property Tax Credit for Income Tax Offset

The purpose of this memorandum is to transmit for introduction by the County Council a resolution to authorize the Property Tax Credit for Income Tax Offset that is included in my FY20 Recommended Operating Budget. If approved by the County Council, this will provide a $692 property tax credit for each owner-occupied dwelling in the County. I urge the Council to review and adopt this resolution as part of its deliberations on the FY20 Operating Budget.

ME:cmm

Attachment: Resolution - Property Tax Credit for Income Tax Offset

cc: Andrew Kleine, Chief Administrative Officer
Dale Tibbits, Special Assistant to the County Executive
Fariba Kassiri, Deputy Chief Administrative Officer
Richard S. Madaleno, Director, Office of Management and Budget
Alexandre A. Espinosa, Director, Department of Finance

MONTGOMERY COUNTY COUNCIL

WILL JAWANDO
COUNCILMEMBER
AT-LARGE

MEMORANDUM

To: Council President Nancy Navarro, GO Committee Chair
Council Vice President Sidney Katz
Councilmember Andrew Friedson

From: Councilmember Jawando WJ

Date: March 21, 2019

Re: Income Offset Tax Credit

As discussions about the County operating budget move forward, I would like to consider an adjustment to the Income Offset Tax Credit, currently set at $692. As you are aware, this credit is available as an adjustment to property taxes for all Montgomery County homeowners. It is the most widely used credit in the County Code – last year more than 242,000 Montgomery County households (roughly 7 in 10 households) benefited from the credit.

According to Council staff estimates in the May 3, 2018 packet for the Government Operations Committee, "if the Council were to increase the credit by $79 (from $692 to $771) and keep revenue from real property tax at the Charter limit, then the tax rate would increase by 1¢ and total property tax revenue would increase by roughly $1.25 million. In terms of progressivity this would result in reduced property tax burdens, when compared to the County Executive's proposal, for homes with assessed values below approximately $750,000."

Increasing this credit would provide much needed relief to middle class families in Montgomery County.

- First, a change to the credit would benefit most Montgomery County households.
- Second, increasing the credit will make our tax code more progressive by providing the largest relative benefit to taxpayers with homes at or below the median assessed value.
- Third, increasing the credit is an equitable way for us to acknowledge the ever-increasing financial pressures on middle-class households. The Council first set the credit at $692 for the levy year that funded the FY11 budget, and it has been set at $692 for each subsequent year. However, since that time consumer prices have increased by more than 15%, health care costs have increased by more than 25%, and housing costs have increased by more than 33%.

STELLA B. WERNER OFFICE BUILDING • 100 MARYLAND AVENUE • ROCKVILLE, MARYLAND 20850
240-777-7811 • FAX 240-777-7888 • COUNCILMEMBER.JAWANDO@MONTGOMERYCOUNTYMD.GOV
WWW.MONTGOMERYCOUNTYMD.GOV/JAWANDO

- Fourth, increasing the amount of money that we return to more than 240,000 households will result in a benefit for our local economy through additional household spending and savings, and by reducing household debt.

As noted above, increasing the credit will also result in a modest amount of additional revenue. This revenue will help us to maintain the important services that Montgomery County households expect its government to provide.

Cc: Councilmemer Albornoz;
Councilmember Glass;
Councilmember Hucker;
Councilmember Rice;
Councilmember Reimer;
Marlene Michaelson;
Jacob Sesker;
Rich Madaleno;
Alex Espinosa